

Palmer Plantation Municipal Utility District No. 2

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2019



Palmer Plantation Municipal Utility District No. 2
December 31, 2019

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Independent Auditor's Report

Board of Directors
Palmer Plantation Municipal Utility District No. 2
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Palmer Plantation Municipal Utility District No. 2 (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
June 22, 2020

Palmer Plantation Municipal Utility District No. 2

Management's Discussion and Analysis

December 31, 2019

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Palmer Plantation Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
December 31, 2019

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Palmer Plantation Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
December 31, 2019

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 3,134,521	\$ 3,177,965
Capital assets	<u>4,587,428</u>	<u>4,763,419</u>
Total assets	<u>7,721,949</u>	<u>7,941,384</u>
Deferred outflows of resources	<u>50,350</u>	<u>56,374</u>
Total assets and deferred outflows of resources	<u>\$ 7,772,299</u>	<u>\$ 7,997,758</u>
Long-term liabilities	\$ 4,647,404	\$ 5,262,049
Other liabilities	<u>285,136</u>	<u>264,707</u>
Total liabilities	<u>4,932,540</u>	<u>5,526,756</u>
Deferred inflows of resources	<u>924,845</u>	<u>904,745</u>
Net position:		
Net investment in capital assets	(9,626)	(444,292)
Restricted	633,481	664,364
Unrestricted	<u>1,291,059</u>	<u>1,346,185</u>
Total net position	<u>\$ 1,914,914</u>	<u>\$ 1,566,257</u>

The total net position of the District increased by \$348,657, or about 22 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Palmer Plantation Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
December 31, 2019

Summary of Changes in Net Position

	2019	2018
Revenues:		
Property taxes	\$ 901,472	\$ 890,875
Charges for services	934,159	895,846
Other revenues	77,835	67,862
Total revenues	1,913,466	1,854,583
Expenses:		
Services	1,178,774	1,114,175
Depreciation	192,264	230,238
Debt service	193,771	219,770
Total expenses	1,564,809	1,564,183
Change in net position	348,657	290,400
Net position, beginning of year	1,566,257	1,275,857
Net position, end of year	\$ 1,914,914	\$ 1,566,257

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended December 31, 2019, were \$1,925,040, a decrease of \$100,334 from the prior year.

The general fund's fund balance decreased by \$53,784 due to service operations expenditures being greater than property tax and service revenues.

The special revenue fund's fund balance decreased by \$578 due to a decrease in the District's share of the operating reserve.

The debt service fund's fund balance decreased by \$45,972 due to bond principal and interest requirements being greater than property tax revenues generated.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to purchased service, repairs and maintenance and capital outlay expenditures being higher than anticipated, and sewer service revenue being lower than anticipated. The fund balance as of December 31, 2019, was expected to be \$1,367,507 and the actual end-of-year fund balance was \$1,286,190.

Palmer Plantation Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
December 31, 2019

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

Capital Assets (Net of Accumulated Depreciation)

	2019	2018
Land and improvements	\$ 713,611	\$ 713,611
Construction in progress	6,149	384,688
Water facilities	937,930	996,013
Wastewater facilities	1,249,154	1,317,634
Drainage facilities	1,680,584	1,351,473
Total capital assets	\$ 4,587,428	\$ 4,763,419

During the current year, additions to capital assets were as follows:

Construction in progress related to discharge pipe at Lake Olympia	\$ 6,149
Outfall levee replacement	10,124
Total additions to capital assets	\$ 16,273

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2019, are summarized as follows:

Long-term debt payable, beginning of year	\$ 5,262,049
Decreases in long-term debt	(614,645)
Long-term debt payable, end of year	\$ 4,647,404

At December 31, 2019, the District had \$7,760,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry an underlying rating of "A" by Standard & Poor's. The Series 2010 refunding bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

Palmer Plantation Municipal Utility District No. 2
Management's Discussion and Analysis (Continued)
December 31, 2019

Other Relevant Factors

Relationship to the City of Missouri City

Under existing Texas law, since the District lies wholly within the City of Missouri City (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.

Palmer Plantation Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet
December 31, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 69,748	\$ 49,905	\$ 550,598	\$ 670,251	\$ -	\$ 670,251
Certificates of deposit	1,150,000	-	240,000	1,390,000	-	1,390,000
Short-term investments	140,173	-	369,794	509,967	-	509,967
Receivables:						
Property taxes	62,300	-	341,240	403,540	-	403,540
Service accounts	54,871	-	-	54,871	-	54,871
Accrued penalty and interest	-	-	-	-	26,549	26,549
Accrued interest	13,366	-	2,260	15,626	-	15,626
Interfund receivable	77,072	12,367	-	89,439	(89,439)	-
Operating reserve	39,698	-	-	39,698	-	39,698
Due from participants	-	24,019	-	24,019	-	24,019
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	713,611	713,611
Construction in progress	-	-	-	-	6,149	6,149
Infrastructure	-	-	-	-	3,867,668	3,867,668
Total assets	1,607,228	86,291	1,503,892	3,197,411	4,524,538	7,721,949
Deferred Outflows of Resources						
Deferred amount on debt refundings	0	0	0	0	50,350	50,350
Total assets and deferred outflows of resources	\$ 1,607,228	\$ 86,291	\$ 1,503,892	\$ 3,197,411	\$ 4,574,888	\$ 7,772,299

Palmer Plantation Municipal Utility District No. 2
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
December 31, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Liabilities						
Accounts payable	\$ 74,862	\$ 29,768	\$ 58	\$ 104,688	\$ -	\$ 104,688
Accrued interest payable	-	-	-	-	61,392	61,392
Customer deposits	85,075	-	-	85,075	-	85,075
Operating deposits	-	33,981	-	33,981	-	33,981
Interfund payable	12,367	-	77,072	89,439	(89,439)	-
Long-term liabilities:						
Due within one year	-	-	-	-	635,000	635,000
Due after one year	-	-	-	-	4,012,404	4,012,404
Total liabilities	<u>172,304</u>	<u>63,749</u>	<u>77,130</u>	<u>313,183</u>	<u>4,619,357</u>	<u>4,932,540</u>
Deferred Inflows of Resources						
Deferred property tax revenues	<u>148,734</u>	<u>0</u>	<u>810,454</u>	<u>959,188</u>	<u>(34,343)</u>	<u>924,845</u>
Fund Balances/Net Position						
Fund balances:						
Restricted, unlimited tax bonds	-	-	616,308	616,308	(616,308)	-
Committed, water production and distribution	-	22,542	-	22,542	(22,542)	-
Assigned:						
Operating reserve	39,698	-	-	39,698	(39,698)	-
Future expenditures	545,802	-	-	545,802	(545,802)	-
Unassigned	<u>700,690</u>	<u>-</u>	<u>-</u>	<u>700,690</u>	<u>(700,690)</u>	<u>-</u>
Total fund balances	<u>1,286,190</u>	<u>22,542</u>	<u>616,308</u>	<u>1,925,040</u>	<u>(1,925,040)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,607,228</u>	<u>\$ 86,291</u>	<u>\$ 1,503,892</u>	<u>\$ 3,197,411</u>		
Net position:						
Net investment in capital assets					(9,626)	(9,626)
Restricted for plant operations					22,542	22,542
Restricted for debt service					610,939	610,939
Unrestricted					<u>1,291,059</u>	<u>1,291,059</u>
Total net position					<u>\$ 1,914,914</u>	<u>\$ 1,914,914</u>

Palmer Plantation Municipal Utility District No. 2
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended December 31, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 139,535	\$ -	\$ 757,607	\$ 897,142	\$ 4,330	\$ 901,472
Water service	247,411	-	-	247,411	-	247,411
Sewer service	175,662	-	-	175,662	-	175,662
Surface water conversion	156,190	-	-	156,190	-	156,190
Bulk water sales	-	334,339	-	334,339	(138,412)	195,927
Garbage service	158,969	-	-	158,969	-	158,969
Penalty and interest	9,928	-	7,087	17,015	3,448	20,463
Tap connection and inspection fees	1,700	-	-	1,700	-	1,700
Investment income	31,211	92	24,369	55,672	-	55,672
	<u>920,606</u>	<u>334,431</u>	<u>789,063</u>	<u>2,044,100</u>	<u>(130,634)</u>	<u>1,913,466</u>
Expenditures/Expenses						
Service operations:						
Purchased services	437,716	-	-	437,716	(138,412)	299,304
Surface water conversion	-	208,775	-	208,775	-	208,775
Professional fees	96,720	2,100	3,109	101,929	-	101,929
Contracted services	105,184	6,069	18,380	129,633	-	129,633
Utilities	2,893	29,036	-	31,929	-	31,929
Repairs and maintenance	112,140	81,307	-	193,447	-	193,447
Solid waste	158,186	-	-	158,186	-	158,186
Other expenditures	45,856	7,144	2,571	55,571	-	55,571
Capital outlay	16,273	-	-	16,273	(16,273)	-
Depreciation	-	-	-	-	192,264	192,264
Debt service:						
Principal retirement	-	-	600,000	600,000	(600,000)	-
Interest and fees	-	-	210,975	210,975	(17,204)	193,771
	<u>974,968</u>	<u>334,431</u>	<u>835,035</u>	<u>2,144,434</u>	<u>(579,625)</u>	<u>1,564,809</u>
Deficiency of Revenues Over Expenditures	(54,362)	-	(45,972)	(100,334)	448,991	
Other Financing Sources (Uses)						
Interfund transfers in (out)	578	(578)	-	-	-	
Deficiency of Revenues and Transfers In Over Expenditures and Transfers Out	(53,784)	(578)	(45,972)	(100,334)	100,334	
Change in Net Position					348,657	348,657
Fund Balances/Net Position						
Beginning of year	1,339,974	23,120	662,280	2,025,374	-	1,566,257
End of year	<u>\$ 1,286,190</u>	<u>\$ 22,542</u>	<u>\$ 616,308</u>	<u>\$ 1,925,040</u>	<u>\$ 0</u>	<u>\$ 1,914,914</u>

Palmer Plantation Municipal Utility District No. 2

Notes to Financial Statements

December 31, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Palmer Plantation Municipal Utility District No. 2 (the District) was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective December 12, 1982, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

The District is a participant in joint water supply and waste treatment facilities, which were formed to maintain and operate water supply and waste treatment facilities on behalf of all participants, as further described in Note 7. The facilities are governed by the Board of Palmer Plantation Municipal Utility District No. 1 (District No. 1). The Board of District No. 1 has the responsibility of approving budgets, setting rates and determining the day-to-day operations. The District retains an ongoing financial interest and responsibility. The District's net investment in and operating transactions with the facilities are reported in the general fund. Additional financial information for the facilities may be obtained from Paul A. Philbin & Assoc., P.C., 6363 Woodway, Suite 725, Houston, Texas 77057-1792.

The District is a participant in joint water supply facilities, which were formed to maintain and operate water supply facilities on behalf of all participants, as further described in Note 7. The facility is governed by the Board of the District. All transactions related to the facilities are accounted for in the special revenue fund. The Board has the responsibility of approving budgets,

Palmer Plantation Municipal Utility District No. 2

Notes to Financial Statements

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setting rates and determining the day-to-day operations. The District retains an ongoing financial interest and responsibility. Additional financial information for the facilities may be obtained from Paul A. Philbin & Assoc., P.C., 6363 Woodway, Suite 725, Houston, Texas 77057-1792.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Special Revenue Fund – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is participant fees.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components.

Palmer Plantation Municipal Utility District No. 2

Notes to Financial Statements

December 31, 2019

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Palmer Plantation Municipal Utility District No. 2

Notes to Financial Statements

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Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Any collections on the current year tax levy are deferred and recognized in the subsequent fiscal year. Current year revenues recognized are those taxes collected during the fiscal year for prior years' tax levies, plus any collections received during fiscal 2018 on the 2018 levy.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended December 31, 2019, the tax levied in October 2019 is recorded as receivable and deferred inflows of resources and will be considered earned during the fiscal year ending December 31, 2020. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, generally, it is the District's policy to use restricted resources first.

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 4,587,428
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	34,343
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	26,549
Deferred amounts on debt refundings for governmental activities are not financial resources and are not reported in the funds.	50,350
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(61,392)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(4,647,404)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (10,126)</u></u>

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$ (100,334)
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay expenditures in the current year.	(175,991)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	600,000

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

Revenues that do not provide current financial resources are not reported as revenues in the funds, but are reported as revenues in the statement of activities.	\$	7,778
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		17,204
Change in net position of governmental activities.	\$	348,657

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At December 31, 2019, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations.

At December 31, 2019, the District had the following investments and maturities:

Type	Maturities in Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Texas CLASS	<u>\$ 509,967</u>	<u>\$ 509,967</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2019, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet at December 31, 2019 as follows:

Carrying value:	
Deposits	\$ 2,060,251
Investments	509,967
Total	\$ 2,570,218

Included in the following statement of net position captions:

Cash	\$ 670,251
Certificates of deposit	1,390,000
Short-term investments	509,967
Total	\$ 2,570,218

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

Investment Income

Investment income of \$55,672 for the year ended December 31, 2019, consisted of interest income.

Fair Value Measurements

The District has the following recurring fair value measurements as of December 31, 2019:

- Pooled investments of \$509,967 are valued at fair value per share of the pool's underlying portfolio.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2019, is presented as follows:

Governmental Activities	Balances, Beginning of Year	Additions	Reclassifi- cations	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 713,611	\$ -	\$ -	\$ 713,611
Construction in progress	<u>384,688</u>	<u>6,149</u>	<u>(384,688)</u>	<u>6,149</u>
Total capital assets, non-depreciable	<u>1,098,299</u>	<u>6,149</u>	<u>(384,688)</u>	<u>719,760</u>
Capital assets, depreciable:				
Water production and distribution facilities	3,084,189	-	-	3,084,189
Wastewater collection and treatment facilities	3,047,212	-	-	3,047,212
Drainage facilities	<u>2,561,753</u>	<u>10,124</u>	<u>384,688</u>	<u>2,956,565</u>
Total capital assets, depreciable	<u>8,693,154</u>	<u>10,124</u>	<u>384,688</u>	<u>9,087,966</u>
Less accumulated depreciation:				
Water production and distribution facilities	(2,088,176)	(58,083)	-	(2,146,259)
Wastewater collection and treatment facilities	(1,729,578)	(68,480)	-	(1,798,058)
Drainage facilities	<u>(1,210,280)</u>	<u>(65,701)</u>	<u>-</u>	<u>(1,275,981)</u>
Total accumulated depreciation	<u>(5,028,034)</u>	<u>(192,264)</u>	<u>0</u>	<u>(5,220,298)</u>
Total governmental activities, net	<u>\$ 4,763,419</u>	<u>\$ (175,991)</u>	<u>\$ 0</u>	<u>\$ 4,587,428</u>

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2019, were as follows:

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 5,125,000	\$ 600,000	\$ 4,525,000	\$ 635,000
Add premiums on bonds	137,049	14,645	122,404	-
Total governmental activities long-term liabilities	<u>\$ 5,262,049</u>	<u>\$ 614,645</u>	<u>\$ 4,647,404</u>	<u>\$ 635,000</u>

General Obligation Bonds

	Refunding Series 2010
Amount outstanding, December 31, 2019	\$4,525,000
Interest rates	4.00% to 4.50%
Maturity dates, serially beginning/ending	September 1, 2020/2026
Interest payment dates	March 1/ September 1
Callable date*	September 1, 2017

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at December 31, 2019.

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

Year	Principal	Interest	Total
2020	\$ 635,000	\$ 184,175	\$ 819,175
2021	680,000	155,600	835,600
2022	715,000	128,400	843,400
2023	765,000	99,800	864,800
2024	545,000	69,200	614,200
2025-2026	1,185,000	71,600	1,256,600
Total	\$ 4,525,000	\$ 708,775	\$ 5,233,775

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount, and are further payable from and secured by a lien on and a pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

Bonds voted	\$ 19,000,000
Bonds sold	11,240,000
Refunding bonds voted	19,000,000
Refunding bond authorization used	1,105,000

Note 5: Significant Bond Order and Commission Requirements

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended December 31, 2019, the District levied an ad valorem debt service tax at the rate of \$0.3800 per \$100 of assessed valuation, which resulted in a tax levy of \$780,980 on the taxable valuation of \$205,520,993 for the 2019 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$819,175.

Note 6: Maintenance Taxes

At an election held August 14, 1993, voters authorized a maintenance tax not to exceed \$0.20 per \$100 valuation on all property within the District subject to taxation. During the year ended December 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.0700 per \$100 of assessed valuation, which resulted in a tax levy of \$143,865 on the taxable valuation of \$205,520,993 for the 2019 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

Note 7: Contracts With Other Districts

Regional Wastewater Treatment Facilities

On December 10, 1984, the District, Fort Bend County Municipal Utility District No. 49 (District No. 49) and District No. 1 entered into a 40-year agreement to share construction and operational costs of a regional wastewater treatment facility. District No. 1 is the operator of the facilities and until the current year, held title for the benefit of the districts. Construction costs are shared based on a pro rata share of costs relative to capacity acquired in the facilities. The District did not participate in the initial phase of construction. The District purchased capacity in the 600,000 gallons-per-day facility from District No. 1 and District No. 49. The District is entitled to 41.7 percent of the plant capacity.

The agreement was amended on May 15, 2019, at which time District No. 1 granted, sold and conveyed ownership of the wastewater treatment facility to the District. District No. 1 will continue to operate the wastewater treatment facility until District No. 1 is dissolved by the City of Missouri City.

Joint Water Facilities

On August 12, 1994, the District entered into an agreement with District No. 1 to purchase capacity in water production facilities. The water production facilities are referred to as water plant No. 1 and are operated by District No. 1. Future construction costs will be shared based on a pro rata share of costs relative to capacity acquired in the facility.

On July 1, 2000, the districts entered into a restated joint water facilities agreement, which includes water plant No. 2, which was constructed by and is owned 100 percent by the District. The District is the operator of water plant No. 2.

On April 1, 2019, the joint water facilities agreement was amended at which time District No. 1 sold a portion of its excess capacity in water plant No. 1 to District No. 49. The District is currently entitled to 29.1 percent of the water plant No. 1's total capacity.

Operational Costs

In accordance with both agreements, the participants share fixed operating costs of the wastewater treatment plant and water plant No. 1 based on their pro rata share of capacity acquired. Variable costs and all costs of water plant No. 2 are shared based on actual capacity used. During the year ended December 31, 2019, the District incurred charges of \$157,914 for sewer service, \$141,390 for water plant No. 1 and \$138,412 for water plant No. 2.

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

The following represents condensed audited financial information of District No. 1's joint facilities as of and for the year ended December 31, 2019:

	Joint Water Plant	Joint Sewer Plant
Total assets	\$ 98,145	\$ 89,473
Total liabilities	\$ 37,090	\$ 47,249
Total fund balance	61,055	42,224
Total liabilities and fund balance	\$ 98,145	\$ 89,473
Total revenues	\$ 381,981	\$ 416,367
Total expenditures	381,981	416,367
Excess revenues	\$ 0	\$ 0

The District has deposited \$39,698 with the joint facilities as its share of an operating reserve.

The following represents current year transactions for water plant No. 2:

	The District	District No. 49	District No. 1	Total
Receivable, beginning of year	\$ 8,337	\$ 15,549	\$ 10,392	\$ 34,278
Billings	138,412	54,710	141,217	334,339
Collections	(134,382)	(58,771)	(139,078)	(332,231)
Receivable, end of year	\$ 12,367	\$ 11,488	\$ 12,531	\$ 36,386
Operating deposit	\$ 22,542	\$ 9,594	\$ 24,387	\$ 56,523

Note 8: Groundwater Reduction Plan Agreement

The District is within the boundaries of the Fort Bend Subsidence District (the Subsidence District), which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to an annual permit issued by the Subsidence District. In 1999, the Subsidence District adopted a district regulatory plan to reduce groundwater withdrawal through the conversion to surface water. The District has entered into a Groundwater Reduction Plan Agreement (GRPA) with the City of Missouri City (the City) in order to meet the Subsidence District's requirements. As a participant in the GRPA, the District has complied with all Subsidence District requirements for

Palmer Plantation Municipal Utility District No. 2
Notes to Financial Statements
December 31, 2019

surface water conversion, but is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced and used by the District and a water purchase fee for any water actually purchased from the City in the future. As of December 31, 2019, the District has incurred fees totaling \$208,775 for groundwater withdrawal, which was billed to each participant for their share.

Note 9: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 10: Uncertainties

As the result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively impact the financial position and results of operations of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Required Supplementary Information

Palmer Plantation Municipal Utility District No. 2
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2019

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 137,116	\$ 139,535	\$ 2,419
Water service	239,500	247,411	7,911
Sewer service	185,000	175,662	(9,338)
Surface water conversion	157,000	156,190	(810)
Penalty and interest	9,800	9,928	128
Tap connection and inspection fees	5,000	1,700	(3,300)
Garbage service	155,000	158,969	3,969
Investment income	24,050	31,211	7,161
	<hr/>	<hr/>	<hr/>
Total revenues	912,466	920,606	8,140
Expenditures			
Service operations:			
Purchased services	379,983	437,716	(57,733)
Professional fees	92,750	96,720	(3,970)
Contracted services	111,000	105,184	5,816
Utilities	3,500	2,893	607
Repairs and maintenance	90,000	112,140	(22,140)
Solid waste	158,000	158,186	(186)
Other expenditures	44,700	45,856	(1,156)
Tap connections	5,000	-	5,000
Capital outlay	-	16,273	(16,273)
	<hr/>	<hr/>	<hr/>
Total expenditures	884,933	974,968	(90,035)
Excess (Deficiency) of Revenues Over Expenditures	27,533	(54,362)	(81,895)
Other Financing Sources			
Interfund transfers in	-	578	578
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	27,533	(53,784)	(81,317)
Fund Balance, Beginning of Year	1,339,974	1,339,974	-
	<hr/>	<hr/>	<hr/>
Fund Balance, End of Year	\$ 1,367,507	\$ 1,286,190	\$ (81,317)
	<hr/>	<hr/>	<hr/>

Palmer Plantation Municipal Utility District No. 2
Budgetary Comparison Schedule – Special Revenue Fund
Year Ended December 31, 2019

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Bulk water sales	\$ 339,140	\$ 334,339	\$ (4,801)
Investment income	60	92	32
Total revenues	<u>339,200</u>	<u>334,431</u>	<u>(4,769)</u>
Expenditures			
Service operations:			
Surface water conversion	230,000	208,775	21,225
Professional fees	2,800	2,100	700
Contracted services	6,000	6,069	(69)
Utilities	31,000	29,036	1,964
Repairs and maintenance	62,300	81,307	(19,007)
Other expenditures	7,100	7,144	(44)
Total expenditures	<u>339,200</u>	<u>334,431</u>	<u>4,769</u>
Excess of Revenues Over Expenditures	-	-	-
Other Financing Uses			
Interfund transfers out	-	(578)	(578)
Deficiency of Revenues and Transfers In Over Expenditures and Transfers Out	-	(578)	(578)
Fund Balance, Beginning of Year	<u>23,120</u>	<u>23,120</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 23,120</u>	<u>\$ 22,542</u>	<u>\$ (578)</u>

Palmer Plantation Municipal Utility District No. 2
Notes to Required Supplementary Information
December 31, 2019

Budgets and Budgetary Accounting

Annual operating budgets are prepared for the general and special revenue funds by the District's consultants. The budgets reflect resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budgets prior to the start of its fiscal year. The budgets are not a spending limitation (a legally restricted appropriation). The original budgets of the general and special revenue funds were not amended during 2019.

The District prepares its annual operating budgets on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedules – General Fund and Special Revenue Fund present the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Palmer Plantation Municipal Utility District No. 2
Other Schedules Included Within This Report
December 31, 2019

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 12-26
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Palmer Plantation Municipal Utility District No. 2
Schedule of Services and Rates
Year Ended December 31, 2019

1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other _____		

2. Retail service providers

a. Retail rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 14.00	6,000	N	\$ 2.25	6,001 to No Limit
Wastewater:	\$ 15.00	5,000	N	\$ 2.25	5,001 to No Limit
Regional water fee:	\$ 1.72	1,000	N	\$ 1.72	1,001 to No Limit
Does the District employ winter averaging for wastewater usage?					Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Total charges per 10,000 gallons usage (including fees):				Water \$ 40.20	Wastewater \$ 26.25

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	462	457	x1.0	457
1"	368	366	x2.5	915
1 1/2"	1	1	x5.0	5
2"	4	4	x8.0	32
3"	-	-	x15.0	-
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	835	828		1,409
Total wastewater	822	815	x1.0	815

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	119,308
Gallons billed to customers:	104,513
Water accountability ratio (gallons billed/gallons pumped):	87.60%

*"ESFC" means equivalent single-family connections

Palmer Plantation Municipal Utility District No. 2
Schedule of General Fund Expenditures
Year Ended December 31, 2019

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$ 17,200		
Legal	55,370		
Engineering	24,150		
Financial advisor	-		96,720
	<hr/>		
Purchased Services for Resale			
Bulk water and wastewater service purchases			437,716
Regional Water Fee			-
Contracted Services			
Bookkeeping	23,025		
General manager	-		
Appraisal district	-		
Tax collector	-		
Security	-		
Other contracted services	82,159		105,184
	<hr/>		
Utilities			2,893
Repairs and Maintenance			112,140
Administrative Expenditures			
Directors' fees	11,400		
Office supplies	6,322		
Insurance	6,192		
Other administrative expenditures	21,942		45,856
	<hr/>		
Capital Outlay			
Capitalized assets	16,273		
Expenditures not capitalized	-		16,273
	<hr/>		
Tap Connection Expenditures			-
Solid Waste Disposal			158,186
Fire Fighting			-
Parks and Recreation			-
Other Expenditures			-
			<hr/>
Total expenditures		\$	<u>974,968</u>

Palmer Plantation Municipal Utility District No. 2
Schedule of Temporary Investments
December 31, 2019

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
Certificates of Deposit				
No. 91300011878161	2.75%	03/04/20	\$ 150,000	\$ 1,400
No. 6774772543	2.50%	07/21/20	100,000	1,110
No. 628	2.75%	02/29/20	100,000	2,531
No. 12044	2.65%	05/15/20	100,000	1,663
No. 440009243	2.25%	09/23/20	100,000	604
No. 4190890	2.00%	10/15/20	100,000	422
No. 16272	2.60%	04/12/20	100,000	1,866
No. 0460018580	2.65%	02/21/20	150,000	3,409
No. 6000022704	2.10%	12/11/20	150,000	164
No. 6002400260	1.80%	11/20/20	100,000	197
Texas CLASS	1.94%	Demand	140,173	-
			<u>1,290,173</u>	<u>13,366</u>
Debt Service Fund				
Certificate of Deposit				
No. 91300011897593	2.75%	08/26/20	240,000	2,260
Texas CLASS	1.94%	Demand	369,794	-
			<u>609,794</u>	<u>2,260</u>
Totals			<u>\$ 1,899,967</u>	<u>\$ 15,626</u>

Palmer Plantation Municipal Utility District No. 2
Analysis of Taxes Levied and Receivable
Year Ended December 31, 2019

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 68,718	\$ 376,214
Additions and corrections to prior years' taxes	(509)	(2,763)
Adjusted receivable, beginning of year	68,209	373,451
 2019 Original Tax Levy	 143,826	 780,770
Additions and corrections	39	210
Adjusted tax levy	143,865	780,980
Total to be accounted for	212,074	1,154,431
Tax collections: Current year	(86,434)	(469,214)
Prior years	(63,340)	(343,977)
Receivable, end of year	\$ 62,300	\$ 341,240
 Receivable, by Years		
2019	\$ 57,431	\$ 311,766
2018	1,513	8,214
2017	653	3,547
2016	398	2,219
2015	139	835
2014	330	2,169
2013	180	1,207
2012	195	1,307
2011	215	1,366
2010	215	1,366
2009	201	1,226
2008	160	1,107
2007	164	1,133
2006	257	1,818
2005	249	1,960
Receivable, end of year	\$ 62,300	\$ 341,240

Palmer Plantation Municipal Utility District No. 2
Analysis of Taxes Levied and Receivable (Continued)
Year Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Property Valuations				
Land	\$ 36,863,759	\$ 37,459,691	\$ 36,820,780	\$ 36,355,343
Improvements	176,076,786	170,860,889	168,998,360	165,185,009
Personal property	1,951,400	1,747,980	1,749,137	1,650,130
Exemptions	<u>(9,370,952)</u>	<u>(9,014,020)</u>	<u>(7,908,394)</u>	<u>(9,636,831)</u>
Total property valuations	<u>\$ 205,520,993</u>	<u>\$ 201,054,540</u>	<u>\$ 199,659,883</u>	<u>\$ 193,553,651</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.3800	\$ 0.3800	\$ 0.3800	\$ 0.3900
Maintenance tax rates*	<u>0.0700</u>	<u>0.0700</u>	<u>0.0700</u>	<u>0.0700</u>
Total tax rates per \$100 valuation	<u>\$ 0.4500</u>	<u>\$ 0.4500</u>	<u>\$ 0.4500</u>	<u>\$ 0.4600</u>
Tax Levy	<u>\$ 924,845</u>	<u>\$ 904,746</u>	<u>\$ 898,470</u>	<u>\$ 890,346</u>
Percent of Taxes Collected to Taxes Levied**				
	<u>60%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

*Maximum tax rate approved by voters: \$0.20 on August 14, 1993

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Palmer Plantation Municipal Utility District No. 2
Schedule of Long-term Debt Service Requirements by Years
December 31, 2019

Due During Fiscal Years Ending December 31	Refunding Series 2010		
	Principal Due September 1	Interest Due March 1, September 1	Total
2020	\$ 635,000	\$ 184,175	\$ 819,175
2021	680,000	155,600	835,600
2022	715,000	128,400	843,400
2023	765,000	99,800	864,800
2024	545,000	69,200	614,200
2025	580,000	47,400	627,400
2026	605,000	24,200	629,200
Totals	\$ 4,525,000	\$ 708,775	\$ 5,233,775

Palmer Plantation Municipal Utility District No. 2
Changes in Long-term Bonded Debt
Year Ended December 31, 2019

	Bond Issues		
	Refunding Series 2003	Refunding Series 2010	Totals
Interest rates	4.00%	4.00% to 4.50%	
Dates interest payable	March 1/ September 1	March 1/ September 1	
Maturity dates		September 1, 2020/2026	
Bonds outstanding, beginning of current year	\$ 250,000	\$ 4,875,000	\$ 5,125,000
Retirements, principal	<u>250,000</u>	<u>350,000</u>	<u>600,000</u>
Bonds outstanding, end of current year	<u>\$ 0</u>	<u>\$ 4,525,000</u>	<u>\$ 4,525,000</u>
Interest paid during current year	<u>\$ 10,000</u>	<u>\$ 199,925</u>	<u>\$ 209,925</u>

Paying agent's name and address:

Series 2003 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2010 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	<u>\$ 19,000,000</u>	<u>0</u>	<u>\$ 19,000,000</u>
Amount issued	<u>\$ 11,240,000</u>	<u>0</u>	<u>\$ 1,105,000</u>
Remaining to be issued	<u>\$ 7,760,000</u>	<u>0</u>	<u>\$ 17,895,000</u>

Debt service fund cash and temporary investment balances as of December 31, 2019: \$ 1,160,392

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 747,682

Palmer Plantation Municipal Utility District No. 2
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended December 31,

	Amounts				
	2019	2018	2017	2016	2015
General Fund					
Revenues					
Property taxes	\$ 139,535	\$ 138,127	\$ 135,233	\$ 128,026	\$ 113,826
Water service	247,411	239,462	231,753	235,548	245,818
Sewer service	175,662	183,710	186,377	184,974	178,632
Surface water conversion	156,190	141,569	142,070	142,027	150,190
Garbage service	158,969	151,792	150,934	149,439	231,376
Penalty and interest	9,928	9,517	9,659	12,076	13,463
Tap connection and inspection fees	1,700	-	-	2,050	-
Investment income	31,211	20,327	12,015	7,255	6,149
Total revenues	<u>920,606</u>	<u>884,504</u>	<u>868,041</u>	<u>861,395</u>	<u>939,454</u>
Expenditures					
Service operations:					
Purchased services	437,716	344,299	396,606	350,121	408,990
Professional fees	96,720	87,318	80,305	72,219	60,183
Contracted services	105,184	106,224	108,294	104,627	98,753
Utilities	2,893	2,799	3,195	3,245	3,533
Repairs and maintenance	112,140	172,800	137,789	59,309	61,855
Solid waste	158,186	151,243	150,345	150,433	238,452
Other expenditures	45,856	42,324	35,910	36,200	49,748
Tap connections	-	4,810	1,600	950	54
Capital outlay	<u>16,273</u>	<u>351,279</u>	<u>53,488</u>	<u>47,365</u>	<u>6,776</u>
Total expenditures	<u>974,968</u>	<u>1,263,096</u>	<u>967,532</u>	<u>824,469</u>	<u>928,344</u>
Excess (Deficiency) of Revenues Over Expenditures	(54,362)	(378,592)	(99,491)	36,926	11,110
Other Financing Sources (Uses)					
Interfund transfers in (out)	<u>578</u>	<u>(3,575)</u>	<u>5,021</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	(53,784)	(382,167)	(94,470)	36,926	11,110
Fund Balance, Beginning of Year	<u>1,339,974</u>	<u>1,722,141</u>	<u>1,816,611</u>	<u>1,779,685</u>	<u>1,768,575</u>
Fund Balance, End of Year	<u>\$ 1,286,190</u>	<u>\$ 1,339,974</u>	<u>\$ 1,722,141</u>	<u>\$ 1,816,611</u>	<u>\$ 1,779,685</u>
Total Active Retail Water Connections	<u>828</u>	<u>828</u>	<u>828</u>	<u>824</u>	<u>823</u>
Total Active Retail Wastewater Connections	<u>815</u>	<u>815</u>	<u>817</u>	<u>815</u>	<u>813</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
15.1 %	15.6 %	15.6 %	14.9 %	12.1 %
26.9	27.1	26.7	27.3	26.2
19.1	20.7	21.5	21.5	19.0
16.9	16.0	16.4	16.5	16.0
17.3	17.2	17.4	17.3	24.6
1.1	1.1	1.1	1.4	1.4
0.2	-	-	0.2	-
3.4	2.3	1.3	0.9	0.7
100.0	100.0	100.0	100.0	100.0
47.6	38.9	45.7	40.6	43.5
10.5	9.9	9.2	8.4	6.4
11.4	12.0	12.5	12.1	10.5
0.3	0.3	0.4	0.4	0.4
12.2	19.6	15.9	6.9	6.6
17.2	17.1	17.3	17.5	25.4
5.0	4.8	4.1	4.2	5.3
-	0.5	0.2	0.1	0.0
1.8	39.7	6.2	5.5	0.7
106.0	142.8	111.5	95.7	98.8
(6.0) %	(42.8) %	(11.5) %	4.3 %	1.2 %

Palmer Plantation Municipal Utility District No. 2
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended December 31,

	Amounts				
	2019	2018	2017	2016	2015
Debt Service Fund					
Revenues					
Property taxes	\$ 757,607	\$ 749,546	\$ 754,058	\$ 769,319	\$ 748,019
Penalty and interest	7,087	15,806	11,946	15,464	5,835
Investment income	24,369	18,705	9,111	4,953	3,977
Total revenues	<u>789,063</u>	<u>784,057</u>	<u>775,115</u>	<u>789,736</u>	<u>757,831</u>
Expenditures					
Current:					
Professional fees	3,109	2,302	4,436	4,921	1,736
Contracted services	18,380	18,266	17,613	17,478	17,831
Other expenditures	2,571	2,420	2,605	2,344	2,434
Debt service:					
Principal retirement	600,000	580,000	550,000	520,000	495,000
Interest and fees	210,975	236,325	258,625	278,715	298,425
Total expenditures	<u>835,035</u>	<u>839,313</u>	<u>833,279</u>	<u>823,458</u>	<u>815,426</u>
Deficiency of Revenues Over Expenditures	(45,972)	(55,256)	(58,164)	(33,722)	(57,595)
Fund Balance, Beginning of Year	<u>662,280</u>	<u>717,536</u>	<u>775,700</u>	<u>809,422</u>	<u>867,017</u>
Fund Balance, End of Year	<u>\$ 616,308</u>	<u>\$ 662,280</u>	<u>\$ 717,536</u>	<u>\$ 775,700</u>	<u>\$ 809,422</u>

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
96.0 %	95.6 %	97.3 %	97.4 %	98.7 %
0.9	2.0	1.5	2.0	0.8
3.1	2.4	1.2	0.6	0.5
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.4	0.3	0.6	0.6	0.2
2.3	2.3	2.3	2.2	2.4
0.3	0.3	0.3	0.3	0.3
76.0	74.0	70.9	65.9	65.3
<u>26.7</u>	<u>30.1</u>	<u>33.4</u>	<u>35.3</u>	<u>39.4</u>
<u>105.7</u>	<u>107.0</u>	<u>107.5</u>	<u>104.3</u>	<u>107.6</u>
<u>(5.7) %</u>	<u>(7.0) %</u>	<u>(7.5) %</u>	<u>(4.3) %</u>	<u>(7.6) %</u>

Palmer Plantation Municipal Utility District No. 2
Board Members, Key Personnel and Consultants
Year Ended December 31, 2019

Complete District mailing address:	Palmer Plantation Municipal Utility District No. 2 c/o Paul A. Philbin & Assoc., P.C. 6363 Woodway, Suite 725 Houston, Texas 77057-1792
District business telephone number:	713.783.4120
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	June 14, 2018
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
James Wagner	Elected 05/18- 05/22	\$ 2,700	\$ 2,644	President
Billy Siems	Appointed 07/19- 05/20	900	0	Vice President
James Gasper	Elected 05/16- 05/20	1,650	255	Secretary
Bob Butzke	Elected 05/16- 05/20	2,250	894	Deputy Secretary
Lawrence Bell	Elected 05/18- 05/22	2,550	1,454	Director
Larry J. Eaton	Elected 05/16- 06/19	1,350	911	Deceased

*Fees are the amounts actually paid to a director during the District's fiscal year.

Palmer Plantation Municipal Utility District No. 2
Board Members, Key Personnel and Consultants (Continued)
Year Ended December 31, 2019

Consultants	Date Hired	Fees and Expense Reimbursements	Title
Assessments of the Southwest, Inc.	10/01/90	\$ 13,861	Tax Assessor/ Collector
BKD, LLP	01/19/94	19,300	Auditor
Fort Bend Central Appraisal District	Legislative Action	6,085	Appraiser
LJA Engineering & Surveying, Inc.	01/14/83	34,935	Engineer
Municipal Accounts & Consulting, L.P.	10/05/05	32,101	Bookkeeper
Paul A. Philbin & Assoc., P.C.	01/14/83	61,484	Attorney
Quail Valley Utility District	09/09/93	276,667	Operator
Rathmann & Associates, L.P.	06/18/03	0	Financial Advisor
Investment Officers			
Mark Burton and Ghia Lewis	08/15/95	N/A	Bookkeepers